- Gains on UK life insurance policies

This Help Sheet will help you fill in the boxes on your Tax Return dealing with gains on UK life insurance policies, life annuities or capital redemption policies.

INTRODUCTION

These notes are not a comprehensive guide to all the detailed rules for taxing gains from insurance policies. Gains in this Help Sheet, unless the context requires otherwise, means gains which are taxable.

A reference in this Help Sheet to a 'policy' means a 'life insurance policy'. This Help Sheet is about taxing gains arising on such a policy.

Gains also arise in connection with two other types of insurance. The first type is known as a 'life annuity'. The second type is known as a 'capital redemption policy'. These types of insurance are described in more detail at the end of this Help Sheet. The rules for taxing gains on them are broadly similar to those for taxing gains arising on life insurance policies. Gains on 'life annuities' and 'capital redemption policies' are fairly rare. No additional explanations of the rules applying to them are included in this Help Sheet.

Many insurance packages are made up of a number of policies often referred to as a 'cluster'. All of these policies may be identical. There may be only one policy document for all the clustered contracts. A reference in this Help Sheet to a policy means one policy. The calculation of any gain should be done policy by policy even if you have twenty identical policies and have received an identical lump sum from each one. The Tax Return Guide tells you to add up gains from a cluster of policies and enter the totals in the appropriate boxes.

WHAT SORT OF POLICY DO YOU HAVE?

Is it a UK or foreign policy?

This Help Sheet is designed to help you if you have made a gain on a UK policy. The Tax Return Guide explains that a policy which is issued by a UK insurer is a UK policy unless it is part of the UK insurer's 'Overseas Life Assurance Business', and contains more information about:

- policies issued by the UK branch of an insurance company resident outside the UK (which may also be a UK policy)
- the Overseas Life Assurance Business of a UK insurer, **and**
- whether your policy is treated as a UK or a foreign policy.

You should include gains from foreign policies in the Foreign Pages of the Tax Return. There is further guidance about foreign policies in *Help Sheet IR321: Gains on Foreign Life Insurance Policies.*

Is it a single or regular premium policy?

- Life insurance single premium policy - you pay an amount to the insurance company at the beginning of the policy and they pay you back a lump sum on maturity or death. You may also withdraw sums while the policy is in force or surrender the policy completely before the policy is due to mature. This type of policy is the one most likely to give rise to a taxable gain.

Personal portfolio bonds

An additional annual charge arises in respect of this type of bond. In general terms, a personal portfolio bond (PPB) is a life insurance policy where the benefits payable are determined by the value of property chosen directly or indirectly by the policy holder. The charge will arise if the policy is a PPB at the end of the policy year (see below). There will be no charge if the property that can be chosen to determine the value of the benefits is limited to certain kinds of property, such as unit or investment trusts, or an index. There are special rules which extend the range of investments that may determine the value of benefits for a bond taken out before 17 March 1998. If these rules are met and the policy has not been enhanced after 17 March 1998 the bond will not be subject to the annual charge. A policy made before 26 June 1982 if a PPB is also subject to the charge even where it has been assigned for money or money's worth so that it is no longer held by the original owner. Ask you adviser, insurance company or Inland Revenue office for more information or ask the Orderline for leaflet *Personal Portfolio Bonds, Guidance Notes for Insurers and Practitioners* (also on our website at www.inlandrevenue.gov.uk). There are special rules for non-resident holders of a PPB who become resident. See the Guidance Notes and ESC B53.

- Life insurance endowment policy - you pay regular amounts of premium over the life of the policy. Such policies may be 'qualifying policies'. Qualifying policies do not generally give rise to taxable gains. However, in some circumstances, such as if you stop the policy early, you may have tax to pay. These circumstances are explained more fully in the sections 'What is a qualifying policy?' and 'Will a gain ever arise from a qualifying policy?' on page 5.
- If you have a qualifying policy but you bought it second hand rather than taking it out yourself directly with the insurer, the tax treatment may be different. This sort of policy is sometimes called a 'Traded Endowment Policy' or 'TEP'. The maturity or sale of a second hand qualifying policy does not generally give rise to a gain chargeable to income tax. However, if it does not give rise to such a gain, the profit you make may be taxed as a **capital gain** which you may have to return on the Capital Gains Pages.

How is a life policy taxed?

With life insurance policies it is the gain on a policy which is taxable. A gain may arise when money is taken out of a policy or when the policy comes to an end or is sold.

The way the profit is worked out depends upon the nature of the event, as explained on page 4. A gain is treated as taxable income but in many cases there will be no tax liability unless you are:

- an individual taxable at the higher rate
- an individual who would qualify for the age-related allowances
- UK trustees
- personal representatives.

WHOSE GAIN IS IT?

If you are an individual and the 'beneficial' owner of the rights under the policy, a gain will be treated as part of your income. You are likely to be the beneficial owner if you paid the premium(s) and you (or your estate after your death) are entitled to any benefits under the policy. You may be regarded as the beneficial owner in other circumstances, usually because you are entitled to benefit from a policy. For example, you may be the beneficiary of what is known as a 'bare' trust or a 'resulting' trust.

If you are an individual and the rights under a policy are held on trusts which you created, a gain will be treated as part of your income, whether or not you are entitled to benefit under the terms of the trust (unless the gain is treated as income of a beneficiary of a 'bare trust' or a 'resulting trust'). You are entitled to recover (from the trustees) tax that you pay on the gain. The terms of the trust will determine whether a gain is treated as income of a beneficiary or income of the person who created the trusts.

If you are an individual and the rights under the policy are held as security for a debt of yours, such as a mortgage, a gain will be treated as part of your income.

If you are the UK resident trustees of a trust created by an individual who is not resident in the UK or who is dead, a gain on a policy will be treated as income of the trustees.

If you are the UK resident trustees of a trust created by a company or some other entity that is not resident in the UK or that has been dissolved, wound up or has otherwise come to an end, a gain will be treated as income of the trustees.

If you are the UK resident trustees of a trust and the rights under a policy are held as security for a debt owed by the trustees, a gain will be treated as income of the trustees.

There is further help for trustees in the Trust and Estate Tax Return Guide.

If you are the personal representatives of a deceased individual and a gain arises that is not treated as having been taxed at the basic rate, a gain may be treated as income of the personal representatives. See the notes below.

If you received a benefit from an overseas trust or entity, a gain may be treated as 'unexpended income' of the trust or entity and the benefit you received may be treated as your income. (See the notes for boxes 6.5 and 6.5A on pages FN11 and FN12 of the Notes on Foreign.) An overseas entity is a company or other institution resident or domiciled outside the UK.

(**Note for Personal Representatives**: a gain may arise because a policy pays a benefit as a result of the death of the individual who would have a gain treated as his or her income under the rules above. If so, the gain is treated as arising immediately before death and is treated as income of the deceased up to the date of death.

In very exceptional circumstances a gain may be treated as income of the personal representatives. It should be included in box 9.29 of the Trust and Estate Tax Return. Some of the circumstances in which a gain is treated as the income of the personal representatives are:

- when a policy of life insurance owned by the deceased but on the life of somebody other than the deceased is surrendered by the personal representatives. Or when such a policy matures while it is still an asset of the estate, **or**
- when a life annuity owned by the deceased and on their life has a guaranteed period during which annuity payments are made and the guaranteed period extends beyond the date of death of the taxpayer and the personal representatives commute the annuity payments in favour of a lump sum, **or**
- when a capital redemption policy owned by the deceased is surrendered by the personal representatives. Or when such a policy matures while it is still an asset of the estate.)

If a policy is co-owned, or if the rights under a policy are held on trusts created by more than one person (including where property was added to an existing trust), or if the rights under a policy are held as security for a debt owed by more than one person, or if the rights under a policy are held in more than one capacity (for example, part of the rights are held as owner and part as trustees), any gain has to be divided according to the share of rights or the owners and the interests. See page 6.

If a gain is to be treated as part of your income, the guidance in the following pages should help you to calculate it.

IN WHAT CIRCUMSTANCES MIGHT A GAIN ON A POLICY ARISE?

A gain may arise when **money (or something of value) is obtained from or in connection with a policy; when ownership of a policy or part of a policy changes hands; or when a policy comes to an end.**

In most cases, money is paid out as a benefit under a policy:

- on surrender of all or part of a policy including on payment of a cash bonus or what some insurers call a regular withdrawal or even an 'income payment'
- when a policy matures
- as a result of death.

Exceptionally, insurance policies which are personal portfolio bonds (full details are in *'Personal Portfolio Bonds: Guidance Notes for Insurers and Practitioners'*) are treated as giving rise to annual gains other than in the final policy year. The gain is an annual charge on policyholders of 15% of premiums paid, with the premiums paid being treated as increased annually, on a compound basis.

The benefit may be paid out as a single sum or as a series of sums.

Your insurance company will often have required you to 'claim' the benefit. (A benefit paid as a result of death will usually be claimed by the deceased's representatives.)

If a gain has arisen, your insurance company may have sent you a copy of a 'chargeable event certificate'.

There will be no gain if a lump sum has been received as a result of a claim to a 'critical illness benefit' or a 'disability benefit' due under the policy. Lump sum critical illness or disability benefits are always left out of account in the reckoning of any gain; for example, if another benefit is paid under the same policy later on. If you are unsure whether a benefit is a critical illness or disability benefit, ask your insurer.

A gain may arise:

- if the insurance company makes you a loan, or makes a loan on your behalf to someone else, **or**
- if you sell a policy (or part of a policy).

If you transfer beneficial **ownership** of a policy by 'gifting' it to someone else, a gain will not arise. But if you transfer beneficial **ownership** of only part of a policy by 'gifting' a part to someone else, special rules apply and a gain may arise. Beneficial ownership may not have been transferred if you retain some right to, or control over, what happens to the policy or the policy benefits.

A gain may arise whenever **a policy comes to an end** even if all (or some) of the proceeds are kept by the insurance company and used to pay a first premium under a new 'replacement' policy or some other type of insurance.

Some policies contain an option on maturity allowing the policy holder to take out a new policy. If such a maturity option is exercised and all the proceeds, including any income arising on maturity, of the old policy are applied as premium under the new policy, a gain will not usually arise when the first policy comes to an end. Ask your insurance company if you think this applies to you and you have not been told.

You may have difficulty in recognising that **one policy has come to an end** and that a new 'replacement' policy (or some other insurance contract such as an annuity) has taken its place. You may not have received a new policy document. Ask your insurance company which may have noted the change in some other way, such as endorsing the existing policy document. The circumstances in which a policy comes to an end include:

- the exercise of an option to take out a new policy (but see the reference to maturity options above)
- for example, if on marriage the life of a spouse is added or on divorce the life of a former spouse is removed from the policy
- the rewriting of a policy under the Married Woman's Property Act of 1882 (or the equivalent statutes in Scotland and Northern Ireland)
- in certain circumstances the exercise of other options or making changes to a policy by agreement. Changes which bring a policy to an end include some which alter the nature of the insured risk. It is not possible to list all changes.

Your insurance company may have told you about the effect of any change you have made to your policy but if they have not, ask them.

I HAVE RECEIVED MONEY FROM A POLICY - IS THERE A GAIN?

If you have a '**qualifying**' **policy** and have received a benefit or one of the other events described above has occurred, a gain will **not usually** arise.

Policies made before 20 March 1968 (and not changed thereafter) will not give rise to gains. (If your policy was made before but was changed after it, the policy may be treated as made after that date. If you are unsure, ask your insurance company about the effect of any change or write to the address on page 7.)

There may be no gain. Certain non-qualifying temporary insurances (which only pay a benefit if death occurs during the term of the policy) have no surrender value, or a surrender value no greater than the premiums paid. The only time this type of policy can give rise to a gain is if it is sold. A sale may occur because the life assured is suffering from a terminal illness.

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HOW IS A GAIN CALCULATED?

There are different rules for calculating a gain on:

- a full surrender (including when a policy comes to an end) or maturity
- death
- a sale
- a part surrender giving rise to a partial withdrawal of benefits or a payment of a cash bonus or on an insurer making a loan or on the sale or gift of part of a policy.

Your copy of a 'chargeable event certificate', if you have one, should contain all the information you need to calculate your gain. (**Different rules apply to life annuities and capital redemption policies. If you need to know about these rules, ask your Inland Revenue office.**)

Calculating a gain on maturity or full surrender

A gain on maturity or full surrender (including when a policy comes to an end) is calculated as follows:

Gain = (X + Y) *minus* (Z + A), where:

X is the single lump sum benefit receivable as a result of the maturity or full surrender etc. (If the benefits are transferred to a new policy, amount X equals the value transferred to the new policy. If a series of sums is to be paid [including if you opt to receive an annuity], X equals the value of those sums at the time the right to them arises. Ask your insurer if your chargeable event certificate does not tell you what the value is.)

Y is all benefits (money or anything of value) received at any time previously under this or any 'related policy' except critical illness benefits or disability benefits - see page 3. Free gifts costing your insurer no more than £30 are left out of account if Extra-Statutory Concession B42 applies to them. A copy of the concession is available from the Orderline.

(A 'related policy' is any policy which ended previously, see page 3, and which was replaced by the policy on which a gain is being calculated. [An earlier policy in a chain of policies is also a 'related policy'.] This applies whether or not the new policy arose as a result of the exercise of a maturity option and whether or not all the benefits under the old policy were transferred to the new policy.)

Z is all premiums paid under this or any related policy.

A is all gains which arose on part surrenders in previous years or on your insurer previously making a loan or on an earlier sale or gift of partof a policy.

Calculating a gain on death

A gain on death is calculated in much the same way except that amount X in this case is the surrender value of the policy immediately before death rather than the lump sum benefit receivable as a result of death.

Calculating a gain on sale

A gain on sale of all of a policy is calculated in much the same way except that, in this case, Amount X is the sale price of the policy (or the value of any other consideration if the policy is not transferred for cash) **unless** the person to whom you sold the policy is your wife or husband (but note that no gain arises if you transfer ownership to a spouse with whom you are living - see page 5), a brother, sister, child or another 'connected person'. If you think this rule might apply to you, ask your Inland Revenue office. In such a case amount X is taken to be equal to the market value of the policy. If you do not know the market value you should write giving full details and documentation to the address on page 7.

Calculating a gain on part surrender etc.

A gain on a part surrender which results in a receipt of benefits or a payment of a cash bonus or on your 'insurer' making a loan or on sale or gift of part of a policy is calculated for a year at a time. The 'year' in this case is the 12 months ending on the day before the anniversary of the day the insurance was first made. **Note**, there is a special rule if this 'year' ended in 1999-2000 and the policy ended at a later date in 1999-2000 as a result of a full surrender, the maturity of a policy or death giving rise to the payment of benefits. In this case, calculate the gain on the full surrender, maturity or death including in Amount Y the benefits from the part surrender etc. There is no need to also calculate a gain on the part surrender. The gain for a 'year' is calculated as follows:

Gain = (B + C) *minus* (D + E + F), where:

B is the value of all parts surrendered **plus** all cash bonuses **plus** the value of all parts that have been gifted or sold **plus** the amount of all loans in the year

C is the value of all parts surrendered and all cash bonuses and the value of parts gifted or sold and the amounts of all loans in previous years, unless those amounts have already been taken into account in calculating a gain in a previous year

D is 1/20th (5%) of premiums paid in the year

E is 1/20th (5%) of premiums paid in any previous years

F is 1/20th (5%) of each premium paid in any previous year for each year since the premium was paid, unless those amounts have already been set off in calculating a gain in a previous year.

(The maximum deduction is 100% of the premium paid, which is 20 years at 5%.) Some examples are on page 8.

See below for working out whether a gain arises from any other type of policy.

Some second-hand policies made before 26 June 1982 do not give rise to gains (but may give rise to a Capital Gains Tax charge as explained on page 6).

Certain policies used to provide pension benefits for some sponsored superannuation schemes which existed before 5 April 1980 will not give rise to gains if an Extra-Statutory Concession applies to them. The concession is number A32, a copy of which can be obtained from the Orderline.

WHAT IS A 'QUALIFYING' POLICY?

It is important to know whether a policy is a qualifying one because if it is, it will mean, in most cases, that no gains will arise. The exceptions to this general rule are described below.

The rules for 'qualifying' policies are complex but if your policy was effected before 14 March 1984 **and** you received Life Assurance Premium Relief throughout its term the policy is a qualifying policy. Your insurer will know the details of your policy and is best placed to say whether or not it was a qualifying one. Ignoring the type of temporary insurance which does not usually give rise to a gain, the rules include:

- the policy must have had a minimum term of 10 years from the date it was made to the date it was due to end, or be a 'whole of life' policy (that is a policy that pays out only on death)
- premiums of fairly even amounts must have been payable at regular intervals, weekly, monthly or annually, in every year at least for 10 (or the first 10) years.

If your policy did not meet these conditions it is not a qualifying policy. If it did you **may** have a qualifying policy but there are other tests to be satisfied.

A policy which starts out as a qualifying policy (this may be indicated in the policy documentation) may become a non-qualifying policy because of changes made to it or because the premiums have ceased to be paid.

Extra-Statutory Concessions, A41 and B42, may apply in deciding what is a qualifying policy. Minor infringements of the rules may not affect the qualifying status if A41 applies to them. Free gifts costing your insurer no more than £30 will not affect the qualifying status if B42 applies to them. Copies of the concessions are available from the Orderline.

WILL A GAIN EVER ARISE FROM A QUALIFYING POLICY?

A gain may arise on your policy **if**, within 10 years from the date it was made:

- you surrender or sell the whole or any part of it, **or**
- you give away part of it, **or**
- it comes to an end in any of the circumstances described in pages 1, 2 and 3 (apart from death within 10 years).

A gain may also arise if you or a previous owner stopped paying premiums such that the policy became 'paid-up' within 10 years from the date it was made and, any time later, you received money or any of the other circumstances described on page 3.

If you or a previous owner have at some point changed the policy and increased the premiums you paid, the 10 year period restarts from the date of that change unless the change came about because an option in the policy was exercised. If a change was made and you are unsure what effect it had, ask your insurer to advise you.

The 10-year minimum rule is reduced in some cases to three-quarters of the intended term; for example, for a policy with an intended 10 year term, no gain will arise if it is surrendered or sold after 7½ years. Or if, for example, a policy is due to run for 12 years after a change (not by way of an option) which leads to an increase in the premiums, no gain will arise if it is surrendered 9 years or more after the change.

There are special rules about qualifying policies and either interest-bearing loans made to you or on your behalf to someone else, or for loans made before 6 April 2000 to employees of insurance companies (or insurance associations provided Extra-Statutory Concession A47 applies). Ask your insurance company whether or not a gain arises in connection with such a loan if you have not been told.

WHAT PREVENTS A GAIN ARISING?

A gain will arise in the circumstances described on page 3 unless:

- the policy is a qualifying policy and none of the circumstances described on page 3 apply, **or**
- the policy was made before 20 March 1968 and not changed thereafter (page 3), **or**
- the beneficial ownership of a policy, in whole or in part, was transferred to a spouse with whom you are living at the date of transfer, or was transferred as security for a debt, **or**

continued over

- a qualifying policy ended as a result of a change of the life (or lives) insured (page 3) **and** all the proceeds are applied as premiums under the new 'replacement' policy **and** nobody was paid or received anything of value in connection with the change. For example (unless one of the other exemptions applies), a gain will arise if your insurance company charged a fee for making the change or paid what is known as 'initial commission' to your financial adviser as a result of the change or you paid or gave something of value to someone else, perhaps as part of arrangements made on divorce, **or**
- the calculations show that there is no gain.

THE RESULT OF THE CALCULATION IS ZERO OR A NEGATIVE AMOUNT - WHAT SHOULD I DO?

This may mean that you have made a loss on the policy. If the result is zero or the result of a part surrender type of calculation (see page 4) is negative, there is no gain and nothing to include in the Tax Return. If the result of one of the other types of calculation on page 4 is negative and you have included an amount for earlier gains which arose on part surrenders giving rise to a part withdrawal of benefits or a cash bonus or on your insurer making a loan or on sales or gift of part of a policy (which is A), a so-called 'corresponding deficiency' arises. If you are an individual and any gain would be treated as your income under any of the first three items under the heading 'Whose gain is it?' (this excludes trustees, personal representatives and beneficiaries of an overseas trust, company or other entity) include the amount in box 12.9 of the Tax Return. This amount may reduce your liability to tax at the higher rate. The amount to be entered in box 12.9 is the smaller of (Z + A) *minus* (X + Y) and A.

If the result of one of the first three types of calculation mentioned above is negative and A is zero, this means you have made a loss on the policy. There is no relief for that loss. **It should not be entered anywhere on the Tax Return.**

A loss on one policy cannot be set off against a gain on another unrelated policy.

IN WHICH YEAR DOES A GAIN ARISE?

A gain is treated as income of the tax year in which a full surrender (including when a policy comes to an end) or maturity, or death or sale occurs.

The tax year in which a gain as a result of a part surrender resulting in receipt of benefits or a cash bonus or your insurer making a loan or a sale or a gift of part of a policy is treated as income depends upon when the insurance was first made. If, for example, you made your insurance on 25 May 1990, any gain as a result of part surrenders giving rise to a receipt of benefits or a cash bonus, etc. in the year 25 May 1998 to 24 May 2000 is treated as income arising on 24 May 2000. That is, the gain is treated as income arising on the day before the next anniversary of the day on which the insurance was made.

DIVIDING A GAIN WHERE THERE ARE JOINT OR MULTIPLE OWNERS OR INTERESTS

If you are the beneficial owner of a share in the rights under a policy when a gain arises, your share of the overall gain is the same as your share of the rights. Joint owners' shares are all equal.

If the rights under a policy are held on trusts you created, or if you added property to an existing trust, your share of the overall gain is the same as the share of the property held in trusts that originates from you at the time the gain arises.

If the rights under a policy are held as security for a debt owed by you and others, when a gain arises, your share of the overall gain is the same as your share of the debt. Similar rules apply in more complex situations and in apportioning gains to trustees, personal representatives and as 'unexpended' income of an overseas trust or entity. If more guidance is needed, write to the address on page 7 of this Help Sheet, with full details of the gains and the circumstances.

OTHER TAX CHARGES

If any other charge to Income Tax arises on money obtained from, or in connection with, a policy or a change of ownership or a policy coming to an end - see page 3 - the charge will take priority over the charge described in this Help Sheet. For example, a benefit under a policy may be a receipt of your trade or profession. If you think this applies to you and you need more help, ask your Inland Revenue office or tax adviser.

If you dispose of a policy or a part of a policy which you acquired from its original owner for money or something else of value (including a part of a policy acquired for value from an ex-spouse on divorcing), a capital gain (or a loss) may arise which you should include in the Capital Gains Pages of your Tax Return.

Lloyd's Underwriters: Life insurance policies, life annuities and capital redemption policies may be held as part of funds at Lloyd's. The tax treatment of any gain on these policies or life annuities depends on how they are used to underpin or support your underwriting. If the insurance company has provided a guarantee to Lloyd's secured on your policy or life annuity, the gains should be entered in the Tax Return, as appropriate, following the guidance in this Help Sheet. If however the Trust Deed governing your Lloyd's deposit includes the policy or life annuity itself, any chargeable event gain is part of Lloyd's trading income and should be included in box 3L.58 of the Lloyd's Pages of the Tax Return (see page LUN5 of the Notes on Lloyd's Underwriters) if you are an individual or box 1L.58 of the Lloyd's Pages of the Trust and Estate Tax Return if you are a personal representative. In these circumstances, the gain is treated as **not** having been taxed at the basic rate and the total sum received should be entered with no allowance for notional basic rate tax.

LIFE ANNUITIES AND CAPITAL REDEMPTION POLICIES

A 'life annuity' means an annuity contract for a period ending on death or at some other time related to the end of life. Annuity payments may commence immediately or be deferred. (These contracts are sometimes known as 'purchased life annuities'.) Not all annuities within this description will give rise to tax charges. In particular, pension annuities and any annuity where relief has been given for any part of the cost (or premium) will not give rise to tax charges. Your insurance company should be able to tell you if you have a life annuity or not. If you need further help, ask your Inland Revenue office or tax adviser.

A 'capital redemption policy' is an unusual type of contract from an insurer. On payment of a sum of money the insurer guarantees that a larger sum will be payable on a specified future date. There is no 'life assured' and therefore no amount becomes payable because of a death. Examples include an 'annuity certain' which is an annuity payable for a fixed period not dependent on a life; a 'leasehold redemption policy' which builds up a fund to be used in some way on expiration of a lease; and a 'sinking fund policy' that accumulates a fund, for example, to pay for replacement of an asset.

TAX RETURN ENTRIES

The Tax Returns indicate what boxes are appropriate for what types of gains. Individuals should read the guidance to boxes 12.1 to 12.5 of their Tax Return. Trustees and personal representatives should read the guidance to boxes 9.29 to 9.31 of the Trust and Estate Tax Return. Beneficiaries of an overseas trust, company or other entity should refer to the guidance to boxes 6.5 and 6.5A of the Foreign Pages.

Individuals need to enter either the number of complete years for which a policy has run, or the number of complete years since the last gain on a part surrender resulted in a receipt of benefits or a cash bonus, loan, or sale or gift of part of a policy. A gain on a part surrender resulting in a receipt of benefits or a cash bonus, etc. is treated as arising on the day before the next anniversary of the day on which the insurance was made. For example, for an insurance made on 19 February 1992 a part surrender gain may arise on 18 February 2001. If there were no previous gains of this sort, the number of years to enter is '9'. If there is a further part surrender resulting in a receipt of benefits or a cash bonus in the next year, the gain will be treated as arising on 18 February 2002 and the number of years to enter, counting back to the previous part surrender, is '1'. If the policy is then fully surrendered on 1 January 2003, the number of years to enter is '10'. The number of complete years is used in calculating the amount of tax which an individual may be due to pay on a gain. There is a special 'top-slicing relief' to which you may be entitled which is worked out using this figure. Broadly speaking, top-slicing relief treats the gain as spread equally over the number of complete years in order to calculate the rate of tax that would apply in the current year.

The Comprehensive Tax Calculation Guide, available from the Orderline, includes more information about top-slicing relief.

This Help Sheet and the Tax Return guidance is updated every year to take account of changes to the law and in response to comments made. If you have any comments, they may be sent to the address below.

MORE HELP NEEDED?

If you need more help in finding an answer to a question in this Help Sheet, or in any case of doubt, you may wish to consult your insurer, your financial adviser, your own Inland Revenue office, or, if necessary, you can write to the Insurance Group at the address shown. Please bear in mind that your insurer will know about your policy in detail but may know nothing about your personal tax circumstances. Unless you have told them, your Inland Revenue office will have no detailed knowledge of your policy but will know about your tax circumstances in previous years. The Insurance Group will have no detailed knowledge of your policy or your tax circumstances, but will be able to advise on general points of principle.

OUR ADDRESS

For further help or information contact your insurer, tax adviser or Inland Revenue office. If you need to write to the author of this Help Sheet send your letters to:

Insurance Help Sheet
Revenue Policy, Business Tax (Insurance Group)
Room S11 West Wing
Somerset House
London WC2R 1LB.

EXAMPLES OF CALCULATION FOLLOW ON PAGE 8

EXAMPLES OF CALCULATION - SEE PAGE 4

Example of a calculation (X + Y) *minus* (Z + A).

1. On **Maturity** a benefit of £10,000 arises (X).

The premiums paid total £4,000 (Z). [Y and A = 0].

The gain is (10,000 *minus* 4,000) = £6,000.

2. As a result of the **Death** of the person to whom the Tax Return relates a benefit of £10,000 arises and the surrender value immediately before death is £8,000 (X) = £8,000.

The premiums paid total £4,000 (Z). [Y and A = 0].

The gain is (8,000 *minus* 4,000) = £4,000 and the gain is treated as income of the deceased for the year of death.

3. On **Surrender** a benefit of £10,000 arises (X).

On **Maturity** of a related policy a benefit of £5,000 arose (Y).

The premiums paid on the first policy totalled £2,000 and on the second policy were equal to the maturity value transferred to the replacement policy £5,000 (Z) = £7,000. [(A) = 0].

The gain is (10,000 + 5,000 *minus* 7,000) = £8,000.

Example of a calculation (B + C) *minus* (D + E + F).

4. Three part surrenders are made in the year to 24.5.99 of £300, £900 and £800. (B) = £2,000. There were no part surrenders etc. in previous years.

The only premium was £10,000 paid on 25 May 1993.
[(D) = 0. (E) = £500. (F) = [£500 x 5 years = £2,500]. [(C) = 0].

The gain is (2,000 - 500 - 2,500) = *minus* £1,000 so there is no gain - see page 6.

5. This example follows on from example 4, therefore (C) = £2,000.

In the year to 24 May 2000 half of the policy is gifted to your adult daughter and the value of that half is £8,000 = (B).

A further premium is paid of £4,000 so (D) = £200,
(E) = £500, (F) = [£500 x 6 years = £3,000].

The gain is (8,000 + 2,000 *minus* 200 *minus* 500 *minus* 3,000) = £6,300. The gain on the gift of part of a policy is taxed according to who owned the policy immediately before the gift. You owned all of the policy immediately before the gift to your daughter so the gain of £6,300 is all treated as your income for 2001-2002. The number of years to enter is 7.

6. This example follows on from example 5 above.

In the year to 24 May 2002 a part surrender of £4,000 is made so (B) = £4,000.

(C) = 0 as all the amounts were taken into account in the previous year.

(D) = 0, (E) = £700, (F) = 0 as all amounts were set off in the previous year.

The gain is (4,000 *minus* 700) = £3,300. The policy is jointly owned at 24 May 2001 and there were no sales or gifts in the year, so only £1,650 is treated as your income for 2002-2003. The balance of £1,650 is treated as income of your daughter for 2002-2003. The number of years to enter is 1.

Example of a calculation (X + Y) *minus* (Z + A).

7. This example follows on from example 6. above. On 7 April 2002 the policy is surrendered for £15,000 = (X).

(Y) = £2,000 [see 4] + £4,000 [see 6] = £6,000. Note the value of the part gifted is not included.

(Z) = £10,000 [see 4] + £4,000 [see 5] = £14,000.

(A) = £6,300 [see 5] + £3,300 [see 6] = £9,600.

The gain is:
(15,000 + 6,000) *minus* (14,000 *plus* 9,600) = *minus* £2,600.
There is a corresponding deficiency - see page 5 - which is the lower of £2,600 and (A) [£9,600], so £2,600. The policy is jointly owned on 7 April 2001 so you each have a corresponding deficiency of £1,300 for 2002-2003.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.